

Message Text

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C O N F I D E N T I A L SECTION 01 OF 03 BRUSSELS 18811

EXDIS

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E.O. 11652: GDS
TAGS: OVIP (CARTER, JIMMY)
SUBJECT: PRESIDENT'S VISIT: JENKINS COMMENTS ON ISSUES
TO DISCUSS WITH PRESIDENT

1. ACCOMPANIED BY DCM, I CALLED ON COMMISSION PRESIDENT JENKINS DECEMBER 15 TO OBTAIN HIS VIEWS ON ORGANIZATION OF THE SUBSTANTIVE ASPECTS OF HIS TALKS WITH THE PRESIDENT ON JANUARY 6. JENKINS BEGAN BY OUTLINING THE ISSUES WHICH HE THOUGHT SHOULD BE TAKEN UP IN THE INITIAL RESTRICTED SESSION AND FINISHED BY RUNNING QUICKLY DOWN THE MATTERS WHICH HE THOUGHT COULD BE HELD OVER FOR THE GENERAL SESSION WITH THE FULL COMMISSION.

2. RESTRICTED SESSION

THE FIRST ITEM ON HIS MIND IS A DISCUSSION OF THE CURRENT BALANCE IN THE RELATIONSHIP AMONG THE U.S., THE EC, AND JAPAN. IN THAT CONTEXT, HE WOULD WANT TO TALK ABOUT HOW TO CONCERT OUR RESPECTIVE ACTIONS TO REDUCE THE JAPANESE CURRENT ACCOUNT SURPLUS AND TO GET THE PRESIDENT'S VIEWS.

SECONDLY, HE WOULD WANT TO DISCUSS WITH THE PRESIDENT
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MONETARY PROBLEMS AND SPECIFICALLY THE SITUATION OF THE DOLLAR. I ASKED WHAT HE HAD IN MIND. HE REPLIED HE DID NOT YET HAVE FULLY FORMED VIEWS BUT HE WAS GREATLY CONCERNED AND THOUGHT MORE SUPPORT MIGHT BE CALLED FOR, DRAWING ME INTO A RATHER EXTENSIVE DISCUSSION.

I BEGAN BY SAYING THAT I DID NOT BELIEVE THERE WAS MUCH

THE UNITED STATES COULD OR SHOULD DO IN THE FORM OF EXCHANGE MARKET INTERVENTION SINCE THE PROBLEM--BEYOND THE BASIC NEED FOR APPRECIATION OF CURRENCIES WHERE THERE WERE CURRENT ACCOUNT SURPLUSES--APPEARED TO BE

UNJUSTIFIED SPECULATION, AND THAT THE TECHNICAL AS WELL AS POLITICAL DIFFICULTIES THAT MASSIVE INTERVENTION IMPLIED MADE IT IMPRACTICAL TO CONTEMPLATE. JENKINS RESPONDED BY SAYING THAT HE THOUGHT SOME THINGS COULD BE DONE AND ASKED WHERE I SAW THE END OF THIS PARTICULAR ROAD. I ANSWERED THAT IF THE U.S. GETS A SUBSTANTIAL ENERGY PROGRAM WITHIN THE NEXT FEW WEEKS THIS SHOULD MAKE A BIG DIFFERENCE AS REGARDS A RETURN OF INTERNATIONAL CONFIDENCE IN THE ABILITY OF THE U.S. TO COPE WITH THIS MAJOR PROBLEM. I SAID I THOUGHT THE DOLLAR WAS SOUND GIVEN UNDERLYING STRENGTH OF U.S. ECONOMY.

JENKINS ACKNOWLEDGED THAT THERE WERE TECHNICAL DIFFICULTIES TO U.S. INTERVENTION BUT THOUGHT IT MIGHT IN FACT BE DESIRABLE TO INTERVENE MORE ACTIVELY IN THE EXCHANGE MARKETS AT THIS STAGE, NOT TO PREVENT CHANGES IN THE DOLLAR'S VALUE REFLECTIVE OF BASIC ECONOMIC TRENDS (HE RECOGNIZED THAT IN PART THE "DOLLAR PROBLEM" WAS THE OTHER SIDE OF THE "JAPANESE ISSUE"), BUT AT LEAST TO BETTER SMOOTH OUT FLUCTUATIONS. HE SAID THAT IF THE DOLLAR IS STRONGER THAN IT LOOKS, IT MAY IN FACT BE TO OUR CONFIDENTIAL

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ADVANTAGE TO KEEP IT FROM BEHAVING AS BADLY AS IT IS NOW.

HE WENT ON TO NOTE THAT IN THE OLD BRETTON WOODS SYSTEM THE DOLLAR WAS IN FACT QUALITATIVELY DIFFERENT FROM OTHER CURRENCIES SINCE IT WAS THE WORLD'S REFERENCE STANDARD. HOWEVER, TODAY IT IS NOT SO QUALITATIVELY DIFFERENT AND THEREFORE THE U.S. SHOULD ACKNOWLEDGE THAT IT HAS GREATER RESPONSIBILITY TO ACT TO SMOOTH OUT FLUCTUATIONS. HE SUGGESTED THAT WE COULD ACTIVATE SWAP ARRANGEMENTS IN ORDER TO PERMIT MORE SELECTIVE BUT GREATER INTERVENTION THAT WOULD HELP SMOOTH THESE FLUCTUATIONS ON THE MARKETS. UNDER THE CURRENT MONETARY SYSTEM, THE MAIN PROBLEM IS THAT THE WORLD HAS NOTHING COMPARABLE TO THE ROLE WHICH THE DOLLAR PLAYED BEFORE 1968 AS A "SHEET ANCHOR" TO GIVE STABILITY TO THE SYSTEM. HOPES HE AND OTHERS HAD HAD IN THE LATE 60'S FOR SDR'S TO BECOME A MAJOR INTERNATIONAL RESERVE AND SETTLEMENT MECHANISM HAD NOT BEEN REALIZED. IN ANY CASE, HE CONCLUDED, THERE IS ROOM FOR DISCUSSION OF THIS PROBLEM WITH THE PRESIDENT.

I SAID I TOOK HIS POINT AND WOULD REPORT IT TO THE PRESIDENT, BUT WOULD WELCOME ANY MORE SPECIFIC OBSERVA-

TIONS WHICH HE HAD TO MAKE UPON FURTHER REFLECTION IN
ADVANCE OF THE VISIT WHICH I COULD CONVEY BACK TO THE
PRESIDENT.

JENKINS THEN INDICATED HE WOULD WANT TO DISCUSS THE STATUS

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OF HIS INITIATIVES ON ECONOMIC AND MONETARY UNION WITH
THE PRESIDENT. THIS WAS ALSO RELATED TO THE DOLLAR
PROBLEM. HE POINTED OUT THAT, IN HIS JUDGMENT, EMU WOULD
BE VERY MUCH IN THE U.S. INTEREST AS WELL AS THAT OF
EUROPE. I SAID THAT I HOPED THE PRESIDENT WOULD RESPOND,
CONSISTENT WITH HIS OVERALL POLICY OF SUPPORT FOR EURO-
PEAN INITIATIVE TOWARD UNION TO EXTENT EUROPEANS THEM-
SELVES WANTED IT, BY SAYING THAT THE U.S. WOULD SUPPORT
THIS GOAL IF THE EUROPEANS THEMSELVES DECIDED THAT THAT
WAS THE COURSE THEY WISHED TO FOLLOW. JENKINS SAID HE
THOUGHT THAT SUCH A STATEMENT WOULD BE VERY HELPFUL AND
FULLY COMPATIBLE WITH LONG-TERM U.S. INTERESTS.

REGARDING EMU, I REFERRED TO A CONVERSATION I HAD WITH
UNDER SECRETARY COOPER AT THE TIME OF MY LAST WASHINGTON
VISIT, IN WHICH HE HAD POINTED OUT THAT WE HEARD A LOT
OF TALK ABOUT THE TECHNICAL DIFFICULTIES OF ACHIEVING EMU
AND THE LACK OF POLITICAL WILL, BUT THAT A MAJOR PROBLEM
IS THAT ONE CANNOT HAVE A EUROPEAN MONETARY AUTHORITY
THAT IS NOT RESPONSIBLE IN SOME WAY TO THE PEOPLE. I
SAID I HAD NOTED ON THAT OCCASION THAT THIS CREATES A
POTENTIAL LINK INTO A DIRECTLY ELECTED EUROPEAN PARLIAMENT
THROUGH WHICH THAT RESPONSIBILITY COULD BE EXERCISED.

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CLEARLY THERE COULD BE A ROLE FOR THE NINE GOVERNMENTS IN THIS REGARD BUT ULTIMATELY THE RESPONSIBILITY MUST BE WITH THE PEOPLE.

JENKINS SAID THAT COOPER WAS CORRECT IN STATING THAT EMU RAISES THE QUESTION OF A LIMITED BUT NONETHELESS IMPORTANT TRANSFER OF SOVEREIGNTY. HE ACKNOWLEDGED THAT THE EUROPEAN PARLIAMENT WOULD HAVE A ROLE TO PLAY BUT HE ALSO FELT THE COMMUNITY COULD IMPLEMENT EMU WITH A RELATIVELY LIMITED INTERVENTION ON NATIONAL SOVEREIGNTY. HOW MUCH, OF COURSE, REMAINS TO BE WORKED OUT.

IN THIS REGARD, HE NOTED THAT WHILE HE WAS DISAPPOINTED OVER THE VOTE IN THE HOUSE OF COMMONS WHICH WOULD DELAY DIRECT EUROPEAN PARLIAMENTARY ELECTIONS, HE DID NOT BELIEVE THAT THE DELAY WOULD BE OF GREAT SIGNIFICANCE IN THE HISTORY OF EUROPE. EVEN A FULL YEAR'S DELAY WOULD NOT BE DECISIVE. THE ELECTIONS WILL CERTAINLY OCCUR BY JUNE OF 1979, IF NOT BEFORE. THE HOUSE OF COMMONS VOTE ONLY MAKES THE UK LOOK BAD AND WILL COMPLICATE THE UK ROLE IN THE COMMUNITY OVER THE COMING YEAR, BUT IS NOT A DETERMINING FACTOR IN OVERALL COMMUNITY PROGRESS.

I ASKED WHAT ASPECTS OF THE MTN JENKINS THOUGHT SHOULD

BE RAISED IN THE RESTRICTED MEETING. JENKINS SAID HE WAS UNSURE ABOUT HOW MUCH OUGHT TO BE DISCUSSED IN THE RESTRICTED MEETING WITH THE PRESIDENT AND HOW MUCH MIGHT HAVE ALREADY BEEN COVERED IN THE MEETING WITH AMBASSADOR STRAUSS WHICH HE UNDERSTOOD MIGHT OCCUR ON JANUARY 5. PERHAPS THE GENERAL MEETING WOULD BE BETTER FOR MTN TALKS. I SAID THAT I WAS CONFIDENT THE PRESIDENT WOULD WANT TO TALK ABOUT THE MTN BUT WHETHER IN RESTRICTED OR MORE
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GENERAL SESSION I DID NOT KNOW. INFORMED JENKINS THAT WE HAD BEEN INSTRUCTED DEC. 15 TO LET VARIOUS GOVERNMENTS AND THE COMMISSION KNOW THAT DURING THE WEEK OF JANUARY 15 WE WILL BE MAKING THE MOST FAR-REACHING OFFERS POSSIBLE IN GENEVA. I SAID THE DATE MIGHT SLIP INTO THE FOLLOWING WEEK OUT OF RESPECT FOR THE COMMISSION'S NEED TO GET ITS PACKAGE APPROVED AT THE MEETING OF THE JAN. 17 EC COUNCIL AND THAT BOB STRAUSS HAS PROPOSED A MEETING AT THE MINISTERIAL LEVEL IN GENEVA FOR JANUARY 23, WHICH COM-

MISSION VICE PRESIDENT HAFERKAMP HAD AGREED TO ATTEND. I THOUGHT THE PRESIDENT, ON JANUARY 6, WOULD EMPHASIZE THE IMPORTANCE HE ATTACHES TO AN EXTENSIVE OFFER FROM THE COMMUNITY AND TO WISH THE COMMISSION WELL AT ITS JANUARY 17 COUNCIL MEETING.

JENKINS RESPONDED THAT WHAT HE MIGHT SAY TO THE PRESIDENT MAY IN FACT BE INFLUENCED BY WHAT HAPPENS TO THE DOLLAR BETWEEN NOW AND THAT TIME. HE SAID HE FEARED THAT SOME MEMBER STATES MAY WISH TO DRAW BACK FROM A SIGNIFICANT OFFER IF THE DOLLAR CONTINUES TO DECLINE. HE SAID HE SAW TWO THREATS AS OF NOW TO THE SUCCESS OF THE MTN. THE FIRST WAS THE SIZE OF THE JAPANESE TRADE SURPLUS: IF IT SHOWS NO SIGN OF TURNING DOWN DURING THE FIRST HALF OF NEXT YEAR, MANY COUNTRIES MAY WISH TO HOLD BACK ON THE EXTENT OF THE LIBERALIZATION THEY WILL OFFER IN THE MTN. REPEATING HIS EARLIER POINT, HE NOTED AGAIN THAT THE OTHER THREAT WAS THE POSSIBLE WEAKNESS IN THE DOLLAR.

CONCERNING JAPAN, JENKINS NOTED THAT HE WOULD SEE MINISTER USHIBA ON DECEMBER 16. HE THOUGHT THAT REGARDLESS OF WHAT THE JAPANESE DO NOW IN THE CONTEXT OF THEIR CURRENT PROGRAM, THE WORLD IS NOT LIKELY TO SEE VERY DRAMATIC RESULTS IN 1978. AS REGARDS THE OUTLOOK TO 1980 AND

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BEYOND, JENKINS THINKS THE CRUX OF THE PROBLEM IS THE INTERNAL JAPANESE DISTRIBUTION SYSTEM. IT IS GEARED TO DISCOURAGE IMPORTS WHICH COMPETE WITH JAPANESE PRODUCTS. SUCH IMPORTS ARE PERMITTED AS LONG AS THEY ARE TREATED AS LUXURY GOODS, BUT ONCE SUCH PRODUCTS START TO COMPETE FOR

THE MASS JAPANESE MARKET, THE DISTRIBUTION SYSTEM DISCOURAGES FURTHER COMPETITION. THUS, EVEN WITH THE BEST JAPANESE WILL TO CHANGE THE SYSTEM, IT WILL BE DIFFICULT AND TIME-CONSUMING TO OVERCOME SUCH INGRAINED HABITS.

THE FINAL ITEM WHICH JENKINS WOULD WISH TO DISCUSS IN THE RESTRICTED MEETING WOULD BE THE OUTLOOK FOR INCREASED U.S.-EC COOPERATION IN RESPONSE TO THE PRESIDENT'S INVITATION FOR HIS IDEAS. JENKINS SAID THAT THE EC WANTS THE CLOSEST POSSIBLE RELATIONS WITH THE U.S. BUT WITHOUT RUNNING INTO STERILE CONFLICTS ABOUT HOW SUCH RELATIONS SHOULD DEVELOP. JENKINS WANTS THE DEVELOPMENT OF OUR RELATIONSHIP TO FLOW NATURALLY BUT WITHOUT TRYING TO FIT IT INTO AN OVERLY PRECISE INSTITUTIONAL FRAMEWORK.

I MENTIONED THE IDEA OF A POSSIBLE STUDY OF WAYS TO IMPROVE OUR RELATIONSHIP. JENKINS SAID HE SAW NO REASON NOT TO HAVE SUCH A STUDY AND EVEN SAW THE POSSIBILITY
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THAT SOMETHING USEFUL MIGHT COME OUT OF IT. HOWEVER, HE DOES NOT WANT A FOCUS ON THE INSTITUTIONAL ASPECTS OF OUR RELATIONSHIP TO LEAD US INTO A HOPELESS SNARL. HE WISHES REGULAR CONTACT WITH THE PRESIDENT BUT NOT IN ANY FIXED PERIOD. HE INDICATED HE WOULD WISH TO SAY A WORD ABOUT THIS TO THE PRESIDENT DURING THE RESTRICTED MEETING IN RESPONSE TO THE PRESIDENT'S LETTER.

IN THAT REGARD, HE WENT ON TO SAY THAT HE THOUGHT IT WOULD BE A GOOD IDEA FOR HIM (JENKINS) TO COME TO WASHINGTON AGAIN SOMETIME DURING THE SPRING BEFORE THE NEXT SUMMIT MEETING, AS HE DID LAST YEAR. I SAID THAT IT SEEMED TO ME THAT REGULAR CONTACT MIGHT BE MORE APPROPRIATELY ENVISAGED AS INCLUDING THE SUMMITS AND THAT PERHAPS AN ALTERNATIVE MIGHT BE TO LOOK TOWARD A JENKINS VISIT ABOUT A YEAR FROM NOW. JENKINS CLEARLY THINKS THAT IT WOULD BE PREFERABLE TO TOUCH BASE AGAIN JUST BEFORE THE NEXT SUMMIT RATHER THAN WAIT UNTIL NEXT FALL.

3. GENERAL SESSION

JENKINS BRIEFLY WENT OVER THE LIST OF SUBJECTS WHICH HE THOUGHT SHOULD BE COVERED IN THE GENERAL MEETING WITH THE FULL COMMISSION. IN ADDITION TO A RECAPITULATION OF GENERAL COMMENTS ON THE MTN, HE WOULD SUGGEST DISCUSSION OF ENERGY AND, MORE BRIEFLY, NORTH-SOUTH MATTERS.

I NOTED THE CURRENT PROBLEM WE WERE HAVING WITH THE MEMBER STATES IN TRYING TO GET THEM TO AGREE TO OPEN NEGOTIATIONS WITH US, AS THE COMMISSION HAS RECOMMENDED,

ON THE U.S.-EURATOM AGREEMENTS. JENKINS AGREED THAT IT
WOULD BE ABSURD FOR THE MEMBER STATES TO RISK A CONFRON-
TATION WITH THE U.S. AT THIS TIME CENTERED ON THE ISSUE
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OF WHETHER OR NOT TO NEGOTIATE, BUT DID NOT APPEAR TO BE
AS CONCERNED AS I AM ABOUT THIS PROBLEM. HINTON

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